

Ahead of the Curve

Attention on the MoF's Preliminary Policy Criteria for 2022

- Preliminary Policy Criteria for 2022.** On Wednesday, March 31st, the MoF will release the *Preliminary Policy Criteria* for 2022, according to comments by Deputy Finance Minister, Gabriel Yorio. This would fulfill the requirement outlined in the Fiscal Responsibility Law, which sets the deadline for these to be delivered on April 1st. We should remember that, by law, the document must include: (1) Main objectives of the Revenue Law and the Spending Budget proposal; (2) scenarios for the main macroeconomic variables for the following year –including GDP, inflation, interest rate and oil price–; (3) scenarios about the total amount of the Spending Budget and its balance –weather it presents a surplus or a deficit–; and (4) a list of priority programs and the amounts expected to be allocated to them. In this sense, we will be looking into updated macroeconomic and fiscal variables for 2021, in a context in which have seen several upward adjustments to GDP for this year. Currently, the MoF estimates GDP for 2021 and 2022 at 4.6% and 2.6%, respectively

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Document for distribution among the general public

Mexico weekly calendar

DATE	HOURL (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 30-Mar	11:00am	International reserves	Mar-27	US\$ mn	--	--	194.9
Tue 30-Mar		Budget balance (measured with PSBR)	February	MX\$ bn	--	--	1.1
Wed 31-Mar	11:00am	Commercial banking credit	February	% y/y in real terms	<u>-5.3</u>	--	-5.1
		Consumption		% y/y in real terms	<u>-12.9</u>	--	-12.7
		Housing		% y/y in real terms	<u>5.1</u>	--	4.9
		Corporates		% y/y in real terms	<u>-4.9</u>	--	-4.7
Wed 31-Mar		Presentation of the Preliminary Policy Criteria for 2022					
Thu 1-Apr		Markets closed due to the Easter holiday					
Fri 2-Apr							

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. Last week, net international reserves decreased by US\$35 million, closing at US\$194.9 billion (please refer to the following table). According to Banxico’s report, this was mainly explained by a negative valuation effect in institutional assets. So far this year, the central bank’s international reserves have fallen by US\$729 million.

Banxico's foreign reserve accumulation details
US\$, million

	2020	Mar 19, 2021	Mar 19, 2021	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	195,667	194,938	-35	-729
(B) Gross international reserve	199,056	200,113	495	1,056
Pemex	--	--	-1	449
Federal government	--	--	-69	1,764
Market operations	--	--	0	0
Other	--	--	565	-1,157
(C) Short-term government's liabilities	3,389	5,174	530	1,785

Source: Banco de México

MoF’s public finance report (Jan-Feb). Attention will center on the Public Balance and Public Sector Borrowing Requirements (PSBR) in the first two months of the year. Specifically, we will be looking into its performance relative to what was approved by legislators in the *2021 Budget*. We will also pay attention into revenue and spending dynamics in the annual comparison, looking for clues about activity levels. Lastly, we will analyze public debt, which as of January stood at MXN\$12.2tn (as measured by the Historical Balance of the PSBR).

Banking credit to extend lower in February. We expect a 5.3% y/y contraction in real terms, below the -5.1% seen in January. While there is a slightly more positive base effect, we still expect broad weakness and prevailing uncertainty to have pushed credit lower. In addition, during the month there is a negative effect from inflation, standing at 3.76% y/y, 22bps above January’s print. By sectors, we expect an additional deceleration in both consumer (-12.9%) and corporate loans (-4.9%). In contrast, we could see a slight uptick in mortgages to 5.1%.

Presentation of the Preliminary Policy Criteria for 2022. In line with the Budget and Fiscal Responsibility Law, we expect that the Ministry of Finance will present the *Preliminary Policy Criteria* for fiscal-year 2022. The law sets April 1st as the deadline for the submission. However, Deputy Finance Minister, Gabriel Yorio, stated they will be delivered on March 31st due to the *Easter* holiday. We should remember that, by law, the document must contain: (1) Main objectives of the Revenue Law and the Spending Budget proposal; (2) scenarios for the main macroeconomic variables for the following year –including GDP, inflation, interest rate and oil price–; (3) scenarios about the total amount of the Spending Budget and its balance –weather it presents a surplus or a deficit–; and (4) a list of priority programs and the amounts expected to be allocated to them.

In addition, the MoF includes a detailed analysis of the global and domestic economy, as well as on public finances up to that moment. Along the presentation for next year’s estimates, they will also adjust their expectations for the current year, both for macroeconomic and fiscal variables, including projections for revenues and outlays.

In this context, we should recall that they currently expect a 4.6% y/y expansion in 2021's GDP (range: 3.6% to 5.6%). We believe this figure will be revised upwards for several reasons, including: (1) Signals from some members of the ministry pointing in this direction; and (2) upward modifications by several international organizations and financial institutions. For the rest of macroeconomic estimates, we expect more modest changes, with special attention on oil output and prices. Turning to public finances, we expect modifications on the Public Sector Borrowing Requirements (PSBR) and their Historical Balance (HBPSBR) –which represent the broadest measures of the public balance and debt–, currently estimated at -3.4% and 53.7% of GDP, in the same order.

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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